

HEELYS, INC.

AUDIT COMMITTEE CHARTER

This charter of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Heelys, Inc. (the “Company”) sets forth the purpose, authority, and responsibilities of the Committee in light of existing regulations and standards in the United States.

Purpose

The Committee shall provide assistance to the Board in fulfilling its oversight responsibility to the stockholders, potential stockholders, and others relating to:

- The integrity of the Company’s financial statements;
- The financial reporting process;
- The systems of internal accounting and financial controls;
- The performance of the Company’s internal audit function and independent auditors;
- The independent auditors’ qualifications and independence; and
- The Company’s compliance with ethical standards and legal and regulatory requirements.

In discharging its oversight role, the Committee shall have authority to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company. Among other powers, the Committee shall have such authority to engage independent counsel and other advisors as it may determine necessary to carry out its duties.

The Company shall provide the resources necessary for the Committee to exercise its authority and perform its responsibilities. Without limiting the preceding sentence, the Company shall provide appropriate funding, as determined by the Committee, to pay the independent auditors, any independent counsel or outside advisors hired by the Committee, and any administrative expenses of the Committee.

Organization

Each member of the Committee shall be a member of, and shall be appointed by and serve at the pleasure of, the Board. The Committee shall consist of at least three directors, each of whom is “independent” of management and the Company, as that term is defined by applicable laws and regulations, including, without limitation, Section 10A(m) of the Securities Exchange Act of 1934, as amended by Section 301 of the Sarbanes-Oxley Act of 2002. The members of the Committee shall also meet the independence and experience requirements (for directors or members of an audit committee) of the Nasdaq Global Market (“Nasdaq”) and any other stock exchange, automated quotation system, or over-the-counter trading system on which the Company’s securities are listed or admitted for trading. The members of the Committee shall also meet any other requirements determined by the Board.

Each member of the Committee must be able, when appointed, to read and understand

fundamental financial statements. In addition, at least one member must have “accounting or related financial management expertise” as required by the rules and regulations of Nasdaq or any other stock exchange, automated quotation system, or over-the-counter trading system on which the Company’s securities are listed or admitted for trading. Further, at least one member, who may be the same member described in the preceding sentence, must be an “audit committee financial expert” as defined by the rules and regulations of the SEC. If no such member is an “audit committee financial expert,” the Committee shall assist the Company in preparing appropriate disclosure as required under SEC regulations.

No member of the Committee may simultaneously serve on the audit committees of more than two other public companies, unless the Board determines that such simultaneous service would not impair the ability of the director to serve effectively on the Committee, and the Board discloses this determination in the Company’s annual proxy statement.

A chairperson will preside over all meetings or sessions of the Committee and will set the agenda for Committee meetings. Unless a chairperson is elected by the Board, the members of the Committee shall designate a chairperson by the majority vote of the full Committee. Only the Board may fill vacancies on the Committee or remove any member of the Committee.

Meetings

The Committee shall meet as often as it determines necessary, but not less frequently than quarterly. Meetings may be held or conducted in person, by telephone, or by video conference (or any combination thereof). The Committee may also take action, as appropriate, by unanimous written consent. The Committee shall meet periodically with management, the internal auditors, and the independent auditors in separate executive sessions. The Committee may request that the Company’s outside counsel or independent auditors, any officer or employee of the Company or any of its subsidiaries, or any other person or persons attend a meeting of the Committee or meet with any members of, or counsel or advisors to, the Committee. The Committee shall maintain minutes and records of, or relating to, its meetings and other actions.

Authority and Responsibilities

Delineation of responsibilities. The primary responsibility of the Committee is to oversee the Company’s financial reporting process on behalf of the Board and report the results of the Committee’s activities to the Board. While the Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company’s financial statements are complete, accurate, and in accordance with generally accepted accounting principles (“GAAP”). Management is responsible for the preparation, presentation, and integrity of the Company’s financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Company. The independent auditors are responsible for auditing the Company’s financial statements and for reviewing the Company’s unaudited interim financial statements.

Flexible, pragmatic approach. The Committee, in carrying out its responsibilities, should

maintain flexibility in its policies and procedures in order to best react to changing conditions and circumstances. The Committee should take appropriate actions to set the overall corporate “tone” for ethical behavior, quality financial reporting, and sound risk assessment and management.

Specific Authority and Duties. The following shall be the principal authority and responsibilities of the Committee, though the Committee may supplement this list as appropriate:

1. *Independent Auditors* The Committee shall be directly responsible for the appointment, termination, and replacement of the independent auditors (subject, if applicable, to stockholder ratification). The independent auditors shall report directly to the Committee. The Committee shall also be directly responsible for the oversight of, and the compensation for, the work of the independent auditors, including, without limitation, resolution of disagreements between management and the auditors regarding financial reporting. The Committee shall pre-approve all audit and, as required by law or regulation, any non-audit services provided by the independent auditors and shall not engage the independent auditors to perform the specific non-audit services proscribed by law or regulation. The Committee may delegate pre-approval authority to one or more members of the Committee, acting as a subcommittee or otherwise. The decisions of any member or members to whom pre-approval authority is delegated must be presented to the Committee at its next scheduled meeting. At least annually, the Committee shall obtain and review a formal written report by the independent auditors describing:

- The internal quality-control procedures of the independent auditors’ firm;
- Any material issues raised by the most recent internal quality-control or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
- All relationships between the independent auditors and the Company necessary or advisable to assess the auditors’ independence, including, without limitation, any information that the Company determines must be disclosed in the Company’s annual proxy statement and disclosures required by Independence Standards Board Standard No. 1.

In addition, the Committee shall discuss with the independent auditors any relationships or services that might impact the auditors’ objectivity or independence. The Committee shall also take, or recommend to the Board that it take, appropriate actions to oversee the auditors’ independence.

2. *Plan of Audit* The Committee shall discuss with the internal auditors, if any, and the independent auditors the overall scope and plans for their respective audits, including, without limitation, the adequacy of staffing and compensation.

3. *Internal Auditors; Internal Controls* The Committee shall approve the hiring or firing of

the Company's chief internal auditor, if any, and evaluate, at least annually, the Company's internal audit function. The Company's internal auditors shall report directly to the Committee, and tasks or duties assigned to the internal auditors, if any, by the Committee shall take precedence over tasks and duties assigned by the Company's management. The Committee shall discuss with management, the internal auditors (if any), and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including, without limitation, the Company's policies and procedures to assess, monitor, and manage business risk and legal and ethical compliance programs. The Committee shall periodically meet separately with management, the internal auditors (if any), and the independent auditors to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the internal auditors, if any, and the independent auditors to meet privately with the Committee or one or more of its members. The Committee shall review with the independent auditors any audit problems or difficulties and management's responses to those problems. The Committee shall discuss with the Company's Chief Executive Officer and Chief Financial Officer their certifications to be made in annual and quarterly filings with the SEC pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, and shall review disclosures made to the Committee by those officers during the certification processes. In addition, the Committee shall review management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year and the independent auditors' report on management's assertion.

4. *Review of Quarterly Reports* The Committee shall review with management and the independent auditors the interim financial statements and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations or comparable disclosures prior to the filing of each of the Company's quarterly reports on Form 10-Q as may be required under applicable laws or regulations or under the rules and regulations of Nasdaq or any other stock exchange, automated quotation system, or over-the-counter trading system on which the Company's securities are listed or admitted for trading. Also, the Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards.
5. *Review of Annual Reports* The Committee shall review with management and the independent auditors the financial statements and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations or comparable disclosures to be included in the Company's annual report on Form 10-K and any annual reports as may be required under applicable laws or regulations or required by the rules and regulations of Nasdaq or any other stock exchange, automated quotation system, or over-the-counter trading system on which the Company's securities are listed or admitted for trading. The review should include management's and the independent auditors' judgments about the quality (not just the acceptability) of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. Also, the Committee shall discuss with the independent auditors the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards,

including, without limitation, any difficulties encountered in the course of the audit work, restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

6. *Review and Discussion Matters* Without limiting the scope of the Committee's review, with respect to each review of a quarterly report or annual report, the review and discussion matters shall include, and the Committee shall otherwise receive, regular reports from the independent auditors on the following:
 - All critical accounting policies and practices to be used;
 - All alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, management's position on the treatment, and the treatment preferred by the independent auditors; and
 - Other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.
7. *Earnings Releases* The Committee shall review and discuss quarterly and annual earnings press releases, including, without limitation, the use of pro forma or other non-GAAP financial measures, as well as financial information and earnings guidance provided to analysts and rating agencies. Such review and discussion may be performed or conducted generally in advance—i.e., review and discussion of the types of information to be disclosed and types of presentations to be made.
8. *Regulatory and Accounting Initiatives* The Committee shall discuss with management and the independent auditors the effect on the Company of regulatory and accounting initiatives, as well as off-balance sheet structures, if any, reflected in the Company's financial statements or affecting its financial condition or results of operations.
9. *Risk Assessment and Management* The Committee shall discuss with management the Company's major financial risk exposures (including, without limitation, pending or threatened litigation) and the steps management has taken to monitor and control such exposures, including, without limitation, the Company's risk assessment and risk management policies.
10. *Procedures for Reviewing Complaints* The Committee shall establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal audit controls, or auditing matters and for the confidential, anonymous submission to the Committee by employees of the Company of their concerns regarding questionable accounting or auditing matters. The Committee shall be the body to whom corporate attorneys' reports are directed to the extent they suggest evidence of violations of securities laws or breaches of fiduciary duty.
11. *Reports* The Committee shall review with management and the independent auditors any disclosure by the Company with respect to the Committee's policies and procedures or with respect to the fees paid by the Company to the independent auditors for audit and

non-audit services to the extent required under applicable laws or regulations or under the rules and regulations of Nasdaq or any other stock exchange, automated quotation system, or over-the-counter trading system on which the Company's securities are listed or admitted for trading. The Committee shall prepare a report to be included in the Company's annual proxy statement or annual report if required under applicable laws or regulations or under the rules and regulations of Nasdaq or any other stock exchange, automated quotation system, or over-the-counter trading system on which the Company's securities are listed or admitted for trading.

12. *Ethical Conduct* The Committee shall recommend to the Board, as appropriate, policies or codes of appropriate or ethical corporate conduct and shall oversee the implementation of, and compliance with, such policies or codes of conduct. The Committee shall conduct or supervise any necessary or appropriate investigations regarding any improper use of the Company's resources or any improper accounting or financial practices of the Company. The Committee shall review and, if it so determines, approve or authorize any potential conflict-of-interest situation or transaction between the Company and its management or any member of the Board, including, without limitation, any relationship or transaction of the kind described in Item 404 of Regulation S-K adopted by the SEC.
13. *Review of Committee and Charter; Amendment* The Committee shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively. The Committee shall also review and reassess this charter at least annually and shall submit to the Board any amendments suggested by the Committee. This charter may be amended in writing from time to time only by the Board.

Approved by the Board of Directors on August 29, 2006